



REPORT OF THE PENSION ADVISORY SUB-COMMITTEE ON INFLATION PROTECTION

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IMPROVING INDEXING IN THE COLLEGE PENSION PLAN

Introduction

As part of its workplan for the 2010-11 year, PAC was asked to, "Review the inflation adjustment issue." PAC created a sub-committee to review indexing. The sub-committee reported to the March 4-5, 2011 PAC meeting. Based on the sub-committee report, PAC has made the following recommendations to Presidents' Council:

1. That FPSE continue to work towards achieving improvements in indexing.
2. That FPSE encourage and support a membership discussion about the various options which exist to improve indexing.
3. That FPSE discuss indexing strategies with other Partner groups based on the feedback received through member discussions.

The purpose of this report is to provide Presidents' Council with the necessary information to make informed decisions about the recommendations from PAC.

Executive Summary

This report provides a significant level of information concerning indexing of the College Pension Plan as well as suggestions for improving the existing level of indexing.

The first part of the report provides the necessary contextual information to allow FPSE members to make informed decisions about indexing. This includes a history of indexing in the College Pension Plan, an analysis of other Canadian Public Sector Pension Plans, a brief overview of how indexing currently works in the College Plan, and a review of the various factors which must be considered when looking at possible improvements to indexing.

The report suggests four possible ways to improve indexing. The four methods are not mutually exclusive but each has its own specific implications for members. Members should be provided with the opportunity to carefully consider the various methods available to improve indexing. Members can then make an informed choice about how they would like to proceed. This will then allow FPSE to more effectively engage with other Plan Partners to negotiate possible improvements in indexing.

1. THE CONTEXT

History of Inflation Protection for the College Pension Plan

Before looking at ways to improve indexing, it is important for members to understand more fully the history of indexing in BC's public sector plans and the College Plan in particular. The history below is adapted from a presentation made by Dr. Bruce Kennedy at the 2008 Public Sector Pension Conference.

Prior to 1968, there were no inflation adjustments made to public sector pensions in BC. The history of inflation adjustments from that point forward divides into four periods.

Ad Hoc Adjustments Period

- 1968 (on the lifetime portion only) Pensioners were paid an adjustment in the range from 3% to 20% depending on how many years they had been on pension. This may not have affected the College Plan which came into existence at about the same time.
- 1971 (on lifetime portion only) There was a 7% adjustment to a max of \$21 per month.
- 1973 (on lifetime portion only) There was another prorated adjustment of 3% to 66% depending on the pensioner's retirement date.
- 1974 There was a final ad hoc adjustment (lifetime portion only) determined by the increase in CPI from July of 1973.

Pay-as-you-go CPI Adjustments Period

- 1975 Regular automatic CPI inflation adjustments were introduced, to be granted quarterly (lifetime portion only and only post-normal retirement age). These adjustments were paid for by extra employer and employee contributions of 0.5% each.
- 1978 The legislation provided that the extra contributions would be increased to 1% each if necessary to meet the indexation expenditure. This became necessary for TPP, PSPP and MPP, so their rates increased, but due to the immaturity of College Pension Plan the 0.5% each funding was adequate to pay their adjustments so there was no increase for that plan.
- 1978 It was believed that the 1% each funding would also soon prove inadequate for TPP, MPP and PSPP, and there was no provision in the legislation for further increases beyond 1% each. A "White Paper" on pension indexing was initiated.

Establishment of the IAA Accounts

- 1980 A "terminal funding" approach was adopted for inflation adjustments. The special contributions (1% each for all four) were paid into each plan's IAA. When an inflation adjustment (lifetime portion only) of up to CPI was granted, the money to pre-fund that adjustment would be transferred from IAA to Basic. IAA adjustments would be subject to availability of funds in the IAAs.
- 1982 A big recession started and inflation started abating by 1983. As a result the "subject to funds available in the IAA" constraint never kicked in (as had been expected) and pensioners continued to receive CPI adjustments through the 1980s and 1990s. Due to lower-than-expected inflation, funds accumulated in the IAAs, particularly for College Pension Plan.
- 1989 College Pension Plan IAA contribution rates were reduced from 1% each to 0.5% each. (There were subsequently some IAA contribution rate increases over the 90's and 00's that got the IAA contribution rate back up to 1.09% each.)
- 1994 MSP, EHB, and Dental benefits were introduced, paid for from employer IAA contributions.
- 1995 The bridge benefit became subject to inflation adjustments.

Maturing of the IAA Accounts / The New Millennium

- 2001 All four plans enter into new joint governance arrangements. The IAA situation changed dramatically as the College Plan entered the new millennium. The ratio of retirees to actives started to increase rapidly. At the same time, investment returns started dropping relative to the returns experienced through the 90's. As a consequence, the IAA grew much more slowly and the predicted longevity of the IAA fund started to shorten.
- 2003-07 It became increasingly evident to the trustees that the longevity of the IAA was shortening dangerously. This was significant because the Plan rules stated that if the IAA Fund was predicted to run out of funds in twenty years or less the Plan could provide reduced indexing in order to extend the longevity of the fund past the twenty year mark. (In fact, by the time the trustees implemented the new sustainable indexing strategy, the IAA was expected to run out of money in 14 years; well inside the twenty year trigger point.)

The College Plan was clearly facing a crisis with the IAA. Not only was the IAA rapidly losing the ability to pay full indexing, health benefit costs were rapidly increasing. Those costs were paid using employer contributions to the IAA. However, the Plan Rules limited health benefit expenditures to a maximum of 1% of the employer IAA contributions. Health benefit costs were expected to exceed that limit by 2008. Over the short term, the trustees had to deal with health benefit costs. However, the overall health of the IAA was also a looming issue.

2008 The Board decided to ask the Court whether the Plan rules allowed the Plan to provide less than full indexing even if the IAA had enough funds in a given year to do so. When the Partners were informed of the strategy they asked the trustees to hold off on the court application for a few months in order to allow the partners to try to offer solutions to the IAA issue. The Partners did offer to increase funding of the IAA by 0.5%.

The trustees then developed a plan which was implemented over a two year period. In order to preserve the IAA and ensure some inter-generational equity, indexing would be capped at a sustainable amount starting January 1, 2011. The cap would be set by the actuary and would reflect the predicted indexing that the Plan could pay in perpetuity. That cap would be revised every three years when the Plan actuary conducted the triennial valuation. (The next valuation will be done in 2012.) The Trustees also decided to eliminate all subsidies of health and dental benefits and, instead, offer access to new voluntary health and dental benefit plans with retirees paying the full cost of premiums.

Sep.2009 New voluntary benefit plan implemented.
Employer and employee IAA contribution rates increased by 0.25% each.

Jan.01.2011 Indexing capped at 1.83%. Actual CPI is 1.7%.

Please note that over the last two years, the Teachers' Pension Plan has faced a similar problem and has also taken action on their IAA. The TPP is moving to a voluntary health benefits plan; contribution rates to the IAA have been increased to a total of 4.13%, and the Plan now provides no indexing to retirees under 56 years of age. The TPP may implement other changes at their next valuation. For comparison purposes, the total College Pension Plan IAA contribution rate is currently 2.76%

How Indexing Currently Works

The College Pension Plan has two funds. The Basic fund provides the money for the basic pension. That fund currently holds about \$2.4 Billion. The Basic Account receives contributions of 8.41% from employers and 8.31% from employees. The Inflation Adjustment Account, which receives contributions of 1.38% each from employers and employees, funds any indexing provided to retiree pensions. The fund currently holds about \$285 Million.

Each year, the College Pension Plan determines the average consumer price index increase using the same methodology as the Canada Pension Plan. The money necessary to cover the actuarial cost of indexing that year is then moved from the IAA to the Basic Account. (As an example, if your pension was increased by a dollar a year and you were expected to live another 15 years, then 15 dollars would be transferred from the IAA to the Basic Account because you would be expected to receive that additional dollar each year for the next fifteen years.)

The trustees have placed a cap on the maximum amount of indexing the IAA will pay in any given year. The cap is set at a level that ensures the IAA will have sufficient funds to pay indexing on a sustainable basis. Currently, the cap is set at 1.83%. The cap is reviewed and adjusted every three years based on the actuarial valuation of the plan. Among other things, the cap ensures that active members contributing to the IAA today will likely receive benefits from the IAA as retirees.

The basic pension paid from the Basic Account is “guaranteed.” Retirees will receive that amount for as long as they live. In order to ensure that promise, the contribution rates for the Basic Account are effectively set by the Plan Actuary to ensure the fund remains solvent.

Indexing adjustments paid from the Inflation Adjustment Account are not guaranteed. The contribution rates for the IAA are effectively determined by the Plan Partners. The trustees cannot unilaterally raise the contribution rates to the IAA. If the IAA runs out of money, then trustees cannot pay any indexing. That is why indexing is not guaranteed.

Important Considerations

Members have expressed a desire to improve the level of available indexing in the College Plan. In fact, many members would like a return to what they have always understood to be a tradition of full indexing. The sub-committee has been charged with the task of developing suggestions for how indexing could be improved. A number of suggestions follow. However, there are some parameters and realities which must be kept in mind when considering improvements to indexing. Here are a few:

- (1) Indexing costs money.

Indexing costs money and improvements in indexing require the provision of additional funds. There is simply no way to improve indexing without making additional funds available. Those funds can consist either of new revenue for the Plan or may be funds generated by modifying the Plan rules concerning other aspects of the pension promise.

- (2) Guaranteed indexing is very expensive.

Currently, no public sector plan in BC guarantees indexing. A move to some form of guaranteed indexing would be extremely expensive. For example, in 2007 the Plan Actuary predicted that guaranteeing full indexing would raise contribution rates by more than 50%. Specifically, employee contribution rates would have gone from 9.21%, at the time, to 14.21%. One of the realities of guaranteeing indexing is that the necessary contributions to support full indexing are very sensitive to the long term assumptions the actuary must make about CPI.

- (3) Employers must contribute at least as much as employees.

The plan's contribution rates are currently over 9% for employees. Consequently, the *Income Tax Act* requires that employer contributions exceed employee contributions if the Plan is to maintain its registered status. This means that any improvements which involve an increase in contributions must be done in such a way that at least half of any contribution increase is born by employers.

- (4) Intergenerational equity is an issue.

The College Pension Board's recent changes to indexing and benefit plans appeared to be driven in large part by a concern for intergenerational equity. Partners should reasonably assume that any proposal to improve indexing would have to satisfy intergenerational equity to some extent. With that said, Partners can make decisions which ignore intergenerational equity and trustees will implement those decisions as long as the proposals are fiducially sound.

- (5) Vested benefits don't change overnight

A vested benefit is any benefit which a pension plan member has a right to. A vested benefit cannot be taken away for the period of time it has been earned. For example, the bridge benefit is a pension top up paid to retirees from age of retirement until age 65. It is meant to stand in for the CPP which normally starts at age 65. The Bridge is

a vested benefit. If, tomorrow, the Pension plan eliminated the Bridge Benefit, the plan would still have to pay the bridge benefit on all service earned before the rule change. If a member had 10 years of service when the rule change occurred and went on to work another 15 years, the member would retire with 25 years of service and the Plan would have to pay that member 10/25ths of a full bridge benefit.

One of the realities of changing vested benefits to liberate funds for the IAA is that any change in vested benefits would produce very little money at first. The full savings from changing a vested benefit would not be realised for several decades until all current service had worked its way through the system.

- (6) The current overall structure of the Pension Plan is not going to change.

The College Pension Plan has undergone some significant changes over the last couple of years. Trustees have eliminated subsidised health benefits and have moved indexing to a capped sustainable model. The trustees are unlikely to consider making significant changes to the basic structure of the Pension Plan for the foreseeable future. Consequently, all the proposals in this paper assume that the current structure would stay in place and that any savings achieved on the basic contribution rate through any of the proposals in this paper would then be transferred to the IAA and the cap adjusted accordingly.

- (7) The actuarial assumption for Inflation matters. A lot.

The current actuarial assumption for inflation is 2.75%. This is an important number. If the IAA cap can be raised to a point where it meets or exceeds 2.75%, then the IAA could pay "full" indexing. This is essentially what the Teachers' Plan has recently done. The changes they made to their plan rules along with increased funding into the IAA allowed that plan to have a cap that exceeded the actuarial assumption for inflation. Consequently, the Teachers' Plan continues to pay full indexing.

Notwithstanding the above, the Teachers' Plan, like College, does not guarantee any level of indexing. If the actuarial assumptions were to change then the Teachers' Plan might no longer pay full indexing.

2. IMPROVING INDEXING

PAC considered several possible strategies to improve indexing. The committee then reduced the number of possible strategies in order to create a more focused membership discussion. The rejected strategies and the reasons for rejection are listed at Appendix A.

PAC determined that the four possible strategies listed below were worthy of further consideration by members. The proposed strategies are divided into two broad categories. Please note that the four strategies listed below are not mutually exclusive. Each proposal can be used on its own or in conjunction with other proposals.

(1) Obtain additional funding for the IAA

The partners could agree to provide additional contributions into the IAA. This could be achieved through bargaining or as part of a stand-alone partners' agreement unrelated to collective bargaining. This is an expensive proposition. For example, a 1% increase in contributions to the IAA would raise the cap by about 0.36%. A \$100 million lump sum payment would raise the cap about 0.2%.

Pros

- Provides additional funds to the IAA resulting in an increase to the cap.
- Can be done at the Bargaining table.

Cons

- Members would probably have to make additional contributions as well.
- Significant contribution increases are required to affect meaningful change to the cap.
- The current economic and political climate is unlikely to allow significant gains in this area.
- In some cases, improvements in IAA funding may come at the expense of salary increases.

(2) Modify the Plan to generate additional IAA Funds

The partners could work with the Pension Board to identify and implement changes in the current structure of the pension benefits which would reduce pension costs in part of the Plan in order to increase funds available to the IAA. This would be, essentially, a kind of "mining" of the pension plan. The following three ideas are examples of where the Plan could be modified to generate more funds for the IAA. Each of these ideas could be done on its own or in combination with others.

(i) Phase out the bridge

The bridge benefit is intended to bridge the lifetime pension from age of retirement to age 65 when unreduced CPP becomes available. The Plan rules could be changed to phase out the bridge. Phasing out the bridge would, over time, generate savings for the Basic Account which could be redirected to the

IAA. Note that the bridge benefit is a vested right. As such, despite any rule change, members would be entitled to a bridge benefit on any service accumulated before the implementation of this proposal.

Pros

- Can be justified as a plan change which reflects demographic trends and public policy directions related to age of retirement.
- The bridge has significant monetary value now. As people choose to retire later in life, the actuarial value of the bridge will decrease since fewer people will retire before age 65. Therefore there is sense in using that actuarial value now to “buy” indexing. Currently, 18% of new retirees do not receive a bridge because they are 65 or older at retirement.

Cons

- Vested right. Change could only apply on a go forward basis.
- Significant change in Plan design compared to other plans.
- The bridge allows members who need to retire before 65 to do so with dignity. Phasing out the bridge would most significantly impact the people who are least able to work until 65.

(ii) Phase out subsidies for early retirement

Currently, the Plan provides for a reduction in pension for members who retire early. The reduction is 3% per year for members who retire directly from teaching before age 60 and 5% a year for deferred members who choose to start their pension before age 60. Some additional rules apply which can affect the reduction in specific cases. Plan members cannot collect any pension before age 55.

Both the 3% and 5% reductions are less than the actual cost of the early retirement to the Plan. The rules regarding reduction could be amended to reflect the true actuarial value of early retirement. The money saved through such a modification could then be redirected to the IAA. Actuaries generally estimate the true value of the early retirement incentives to sit at about 5-6% for this Plan.

Please note that like the previous proposal, the reduction factors are vested benefits. Current members would retain the vested right to the current reduction percentages for any service accrued before a rule change. Savings from this rule change would take several decades to fully materialise.

Pros

- No contribution increase.
- The increase in the reduction would be justifiable on a “fairness” principle.

Cons

- Vested right. Could only apply to service going forward.
- Members may value ability to retire early more than they value improvements in inflation protection.
- Unlikely to produce any significant windfall for the IAA.

(iii) Phase out indexing to retirees below a certain age

The Teachers' Pension Board has moved to a form of sustainable indexing by phasing out indexing for people under age 56. The College Pension Plan could move to phase out indexing below a certain age, for example age 60. This would reduce expenses from the IAA and would, therefore, increase the cap.

Currently, the average retirement age in the Plan is 62.

Pros

- Easy to do.
- Can be justified as a plan change which reflects demographic trends and public policy directions related to age of retirement.
- No vested rights involved.
- Similar to approach taken by Teachers' Plan.

Cons

- Affects younger retirees who have been paying for inflation protection more harshly than older retirees.
- Could affect retirement planning of members currently approaching early retirement age.
- The minimum age limit for indexing could be relatively high in order to achieve meaningful gains in the cap, especially if the goal was to achieve full indexing in practice.

3. CONCLUSIONS AND RECOMMENDATIONS

The research conducted by PAC shows that most public sector plans in Canada provide some form of indexing. However, in almost all cases, that indexing is limited in some fashion. Furthermore, over the last several years, many plans have moved to some form of indexing which is dependent on the financial health of the Plan.

In several provinces, unionised plan members and governments have had extensive discussions and have reached significant mutual agreements to bring about changes to plan design and to indexing. This is most recently evident in Ontario, Alberta and Nova Scotia. Different provinces have taken different approaches to deal with pension funding issues. For the most part, the solutions are a function of plan design and history. BC's plan design is unusual in that most plans do not have a separate account to provide inflation protection. Furthermore, BC is one of few provinces that have never guaranteed inflation protection. These particular characteristics of the College Plan must be considered when considering proposals for improving inflation protection.

So far, only the College Plan and the Teachers' Plan have moved to some form of sustainable indexing. The two plans offer different approaches. The College Plan has adopted a hard cap while Teachers' Plan has changed the age of eligibility for indexing. The College Plan has built in an automatic review mechanism while Teachers' has not.

The experience in other provinces suggests that governments have an appetite for reaching mutually acceptable agreements with employee groups on pension issues. In BC, the Government Partner has shown a surprising level of support for the existing plans as well as a desire to work collaboratively with other Partners. This presents the FPSE with a significant opportunity to achieve changes in the plan which would improve indexing. However, before that happens, the FPSE needs to develop a clear position on possible approaches to improvements for indexing.

Given the importance of inflation protection for members, the FPSE needs to engage the broader membership in a discussion about improvements to indexing. The strategies described in this paper, along with the background information, should form the basis of that membership discussion. A broadly based membership discussion occurring over a period of time would allow the FPSE to develop a clear position enjoying the broad support of the membership. This would allow the FPSE to more effectively engage other pension partners in proposing improvements to indexing.

Appendix A

Possible strategies rejected by PAC

The following strategies to improve indexing were rejected by PAC. They are included in this appendix simply to demonstrate the scope of ideas PAC considered.

Reduce the lifetime pension accrual from 1.7% to 1.3% of salary per year of service

The lifetime Pension accrual is the percentage of your highest average salary that you will receive as pension for each pensionable year of service. The College Pension Plan has an accrual rate of 1.7% of salary per year. Most defined benefit plans offer a lifetime benefit formula of 1.3%.

By reducing the accrual rate on a go forward basis, funds would be freed up which could then be directed to the IAA and used to increase the indexing cap. (Note that the accrual rate was 1.3% prior to 2002.)

Reason for Rejection: The 1.7% accrual rate exists because, on average, College Plan members start their teaching careers at a later age. The average entry age into the Plan is 42. Members would be giving up a substantial and important feature of the pension plan in exchange for improvements in a benefit which is not guaranteed.

Move to a percentage formula for indexing

The current cap of 1.83% is actuarially equivalent to a cap of 66.5% of CPI. The Plan could move to a percentage based cap instead of a hard cap. A 66.5% CPI cap would provide better inflation protection than the current approach if CPI exceeded 2.75%.

Reason for Rejection: PAC rejected this proposal on a number of grounds. First, the proposal would only improve what retirees receive as indexing if inflation rose above 2.75%. Second, any sustained or significant rise in inflation could expose the IAA to an unsustainable drain in funds. Third, the method does not actually increase the capacity of the IAA to provide indexing, it simply changes the way the money is used.

Create a supplementary Inflation Adjustment Account

Currently, the pension plan has two funds: the Basic Account which pays the basic pension promise, and the Inflation Adjustment Account which pays for indexing. The Pension Board could create a third account funded through a mechanism to be determined. That account would pay additional indexing when inflation exceeded the IAA cap. For the purposes of this paper, the proposed additional account shall be referred to as the Supplementary Inflation Adjustment Account (SIAA).

The SIAA could be financed using any of the methods listed in the previous two sections. However, the additional revenue would go into the SIAA instead of the IAA. Money for the SIAA could also be generated by transferring unused IAA funds in any given year where indexing was lower than 1.83% to the SIAA or by transferring surplus basic funds to the SIAA instead of the IAA.

The SIAA would operate on a cliff indexing basis. (Cliff indexing refers to a fund paying full indexing until no more money remains in the fund.) Whenever inflation exceeded the sustainable cap of the IAA, additional indexing up to CPI would be paid from the SIAA assuming sufficient funds were available. The SIAA would allow the plan to deal fairly easily with short-term spikes in inflation.

Reason for Rejection: PAC rejected this proposal because it would, among other things, create a level of confusion and uncertainty among retirees about the indexing they could expect in the future. The proposal would also exacerbate, rather than improve, intergenerational equity issues

Amalgamate the College Plan with another plan

The College Plan could negotiate an amalgamation with one of the other public sector plans, probably the Public Service Plan, in order to have access to a healthier IAA and achieve full indexing in practice.

Reason for Rejection: PAC rejected this proposal without reservation. The reasons include:

- Loss of control over the Plan.
- Radical change.
- Extremely complex negotiations to amalgamate Plan.
- No incentive for another plan to agree if our purpose is to get at their money.

Appendix B

Survey of Canadian Public Sector Pension Plans

Formal indexing became a prevalent feature of most public sector pension plans by the mid-seventies. Before that, indexing tended to be sporadic at best. However, over the last 20 years, many of those same plans have revised indexing rules in order to control plan costs or address unfunded liability issues. That trend has become more prevalent coming into the new millennium. Today, few plans offer unrestricted full indexing. Instead most plans now limit indexing either with a maximum cap or a percentage formula.

As of 2007 the following data was available regarding the prevalence of formal indexation in defined benefit plans. It is safe to assume that these figures have not improved since 2007.

Plans offering some level of indexing (2007)

| | Public Sector | Private Sector |
|-----------------------------------|---------------|----------------|
| Percentage of Plans | 58 | 61 |
| Percentage of employees in sector | 77 | 17 |

Plans offering full indexing (2007)

| | Public Sector | Private Sector |
|-----------------------------------|---------------|----------------|
| Percentage of Plans | 13 | 1 |
| Percentage of employees in sector | 30 | 2 |

Over the last decade several large Canadian public sector plans have moved away from full indexing to some form of indexing which is dependent, at least in part, on the financial status of the plan. The OTP, NSTPP, and RRUQ, among others, have all moved from guaranteed full indexing to some form of partial indexing dependent on the plan's funding status.

The attached table provides a comparison of selected public sector pension plans across the country. The plans listed are all defined benefit plans. That is essentially where the similarities end. A number of approaches are taken concerning governance, indexing, funding and investment management. As a rule, plans within a given province adopt similar approaches to each other. It would also be fair to describe the BC plans as industry leaders in terms of governance and communication.

Appendix C contains a chart comparing several public sector pension plans from across the country.

Some interesting points:

- Saskatchewan has closed all their public sector defined benefit plans and replaced them with a public sector DC plan. The plans listed in the table are the closed defined benefit plans. DC plans do not offer indexing.
- In Manitoba, employee contributions are deposited and invested. However, core public sector employers (public service, education, health) pay half the pension costs of retired members on a pay-as-you-go basis instead of making contributions to the plan. Other public sector employers must match employee contributions to the plan.
- In Québec, all public sector pension plans as well as the Québec Pension Plan (The provincial equivalent to the Canada Pension Plan) invest their funds with the Caisse de dépôts et placements du Québec. The Caisse also handles all other public sector funds including car insurance, workers' compensation, and large funds held by provincial crown corporations. The various Québec plans listed have all changed their indexing rules over the years in response to plan funding issues. Québec also has a number of older closed plans which are not relevant to this paper.
- Ontario has some of the largest plans in the country. However, they are facing some difficulties with solvency ratios. The Ontario Teachers' Plan has moved to address the solvency issue in part through changes to its indexing rules.
- The Nova Scotia Public Service Plan and the Nova Scotia Teachers' Plan have both made significant changes in the last few years to address large unfunded liabilities. The plans have raised contribution rates and significantly changed indexing rules. In 2004, the Nova Scotia Teachers' Plan moved to Joint Trusteeship.
- In BC, two plans, Teachers' Pension Plan and College Pension Plan, have moved away from full indexing to a sustainable indexing model. The two plans have taken different approaches. The Teachers' Pension Plan has addressed the sustainability of the IAA by raising the minimum age at which retirees can begin receiving indexing. The new limit along with some funding improvements allows the Teachers' Plan to offer full, un-guaranteed indexing on a sustainable basis. However, the Plan has not built in a review mechanism and may institute other changes at their next valuation.

Appendix C

Comparison of Selected Public Sector Pension Plans

| Plan | Contribution Rate (above YMPE) | | lifetime rate | Indexation | guaranteed? |
|-------------------------------|-----------------------------------|----------|------------------|--|-------------|
| | employee | Employer | | | |
| British Columbia | | | | | |
| College Pension Plan | 9.69% | 9.79% | 1.70% | CPI up to 1.83% (actuarially equivalent to 66.5% CPI) | No. |
| Teachers Pension Plan | 12.70% | 14.03% | 1.30% | CPI Age 56 and up | No. |
| Public Service Pension Plan | 9.28% | 8.28% | 1.35% | CPI | No. |
| Municipal Pension Plan | 9.30% | 9.72% | 1.30% | CPI | No. |
| Ontario | | | | | |
| OMERS | | | | | |
| Ontario teachers Pension Plan | 9.70% | 9.70% | 1.33% | CPI to 6% | Yes. |
| Ontario Pension Board | 12% | 12% | 1.3%? | CPI for service before 2009. Service after 2009: 50% CPI plus additional amount up to 100% CPI dependent on funds. | yes |
| | 9.50% | 9.50% | 1.30% | CPI up to 8% | yes |

Quebec

| | | | | | |
|--------|--------|--------|-------|---|-----|
| RRUQ | 10.80% | 10.80% | 1.30% | full CPI for service before 2005. CPI-3% after 2005. | yes |
| RRPE | 10.54% | 10.54% | 1.30% | CPI before 1982. CPI-3% 1982-2000. Best of 50% CPI or CPI-3% since 2000 | yes |
| RREGOP | 8.69% | 8.69% | 1.30% | Same as RRPE | yes |

Manitoba

| | | | | | |
|------|----|----------|-------|------------|-----|
| CSSB | 7% | 7%/PAYGO | 1.60% | 60% of CPI | No. |
|------|----|----------|-------|------------|-----|

Alberta

| | | | | | |
|------|-------------|-------------|-------|---|------|
| ATRF | 12.91% | 10.10% | | 60% CPI before 1993. 70% CPI after 1993 (Additional 10% fully funded from employee contributions) | Yes. |
| LAPP | 8.49/12.13% | 9.49/13.13% | 1.40% | 60% of CPI | Yes. |

Saskatchewan

| | | | | | |
|----------------|-------|-------------|-------|---------|-----|
| SPSSP (closed) | 7-9% | not defined | 1.30% | 70% CPI | Yes |
| STSP (closed) | 7.85% | 7.85% | ? | 80% CPI | yes |

Nova Scotia

| | | | | | |
|-------|--------|--------|-------|--|------------------|
| NSTP | 9.90% | 9.90% | 1.30% | prior to 1994, full CPI 1994 to 2006: CPI-1% Post 2006: 0% if Plan funding below 90%; 50%CPI at discretion of Board if Plan funding 90- 100%; full CPI if plan funding above 100% but only if fund predicted to stay above 100% | yes yes No |
| NSPSP | 10.90% | 10.90% | 1.30% | 2011-15: 1.25%/yr, fixed 2016+: 0% if Plan less than 100% funded; some indexing if plan funded more than 100% | yes No |